

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Quarterly
Contribution Base for the Fourth Quarter 2003

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**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, DC 20554**

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE QUARTERLY CONTRIBUTION BASE FOR THE
FOURTH QUARTER 2003**

INTRODUCTION

The Universal Service Administrative Company (USAC) is the not-for-profit corporation responsible for administering the federal universal service support mechanisms: High Cost, Low Income, Rural Health Care, and Schools and Libraries Universal Service Support Mechanisms.¹ USAC also performs the billing, collection, and disbursement functions for all of these universal service support mechanisms.

USAC submits the contribution base amount to be used for the fourth quarter of calendar year 2003 (4Q2003) in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.² USAC is filing this contribution base report pursuant to the Commission's order of December 13, 2002, updating the original *Contribution Methodology Order*

¹ See Changes to the Board of Directors of the National Exchange Carrier Association, Inc., CC Docket No. 97-21, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Third Report and Order in CC Docket No. 97-21, Fourth Order on Reconsideration in CC Docket No. 97-21 and Eighth Order on Reconsideration in CC Docket No. 96-45*, FCC 98-306, 63 Fed. Reg. 70564 (rel. Dec. 21, 1998); Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service, CC Docket No. 96-262, 94-1, 99-249, 96-45, *Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45*, FCC 00-103 (rel. May 31, 2000) (*CALLS Order*); Federal-State Joint Board on Universal Service, Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas, CC Docket No. 96-45, *Twelfth Report and Order and Further Notice of Proposed Rulemaking*, FCC 00-208 (rel. June 8, 2000) (*Tribal Lands Order*); Federal-State Joint Board on Universal Service, Petition for Reconsideration filed by AT&T, CC Docket No. 96-45, *Report and Order and Order on Reconsideration*, FCC 01-85 (March 14, 2001) (*Contribution Methodology Order*).

² 47 C.F.R. § 54.709(a)(3).

issued on March 14, 2001.³ In the December 13, 2002, order, the Commission changed the universal service contribution base methodology to projected collected revenue rather than actual contributor revenues billed.⁴ On March 14, 2003, the Commission released an *Order and Second Order on Reconsideration*, which, *inter alia*, directed the Wireline Competition Bureau to announce the universal service contribution factor as a percentage rounded up to the nearest tenth of one percent.⁵ The Commission also directed the Wireline Competition Bureau to account for contribution factor rounding when calculating the “circularity” discount factor.⁶ Consistent with those orders, USAC filed the federal Universal Service Support Mechanisms fund size and administrative cost projections for 4Q2003 on August 1, 2003.

Upon approval of the universal service support mechanisms’ quarterly funding requirements, projected administrative expenses, and the contribution base, the Commission will establish a quarterly contribution factor and a circularity factor. USAC will then bill contributors on a monthly basis for their individual obligations based on the approved contribution factor and circularity

³ See *Contribution Methodology Order*, ¶¶ 10-13; Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review—Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, NSD File No. L-00-72, *Report and Order and Second Further Notice of Proposed Rulemaking*, FCC 02-329 (rel. Dec. 13, 2002) (*Projected Collected Contribution Methodology Order*).

⁴ *Id.*

⁵ See Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, *Order and Second Order on Reconsideration*, FCC 03-58, ¶ 22 (rel. Mar. 14, 2003) (*Second Order on Reconsideration*) (“Although the Second Order on Reconsideration has not yet been published in the Federal Register and accordingly has not yet become effective, we expect it will be published before the start of the second quarter of 2003. Absent release of this Public Notice, the six-digit contribution factor announced on March 7, 2003 would be deemed approved by the Commission on March 21, 2003. However, the six-digit contribution factor would be inconsistent with the Second Order on Reconsideration. Therefore, the Bureau takes this limited action today to ensure the implementation of the Second Order on Reconsideration for the second quarter of 2003.”).

⁶ *Id.*

factor. USAC will collect and distribute the funds to eligible recipients based on the schedules included in the filing.

CONTRIBUTION BASE

USAC currently collects quarterly interstate and international revenue information from carriers on the FCC Form 499-Q four times each year and submits aggregate information on a quarterly basis to the FCC (March 2, June 1, September 1, and December 2).⁷

Carriers also file FCC Form 499-A in April of each year to report their annual revenues from the prior year. USAC will use the revenue data provided by carriers in the FCC Form 499-A to perform annual true-ups to the quarterly revenue data submitted by carriers on FCC Form 499-Q during the prior calendar year.⁸ As necessary, USAC will then refund or collect from carriers any over-payments or under-payments. If the combined quarterly revenues reported by a carrier (on its Form 499-Qs) are greater than those reported on its annual revenue report (Form 499-A), then a refund will be provided to the carrier based on an average of the two lowest contribution factors for the year. If the combined quarterly revenues reported by a carrier are less than those reported on its annual revenue report (Form 499-A), then USAC shall collect the difference from the carrier using an average of the two highest contribution factors from that year.⁹

Carriers filed the Form 499-Q with 4Q2003 projected collected revenue information on August 1, 2003. By August 29, 2003, USAC is required to file revenue data with the FCC based on

⁷ The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported.

⁸ In addition, carriers will be allowed an opportunity to file a revised Form 499-Q within 45 days of the original filing due date for that current quarter. See *Projected Collected Contribution Methodology Order* ¶ 36.

⁹ *Projected Collected Contribution Methodology Order* ¶ 36.

the August 1, 2003 carrier filings.¹⁰ The Commission will use the program demand data and the projected collected revenue to calculate the universal service contribution factor for 4Q2003.¹¹

FCC Form 499 Schedule

Due Dates:	Projected Collected Revenue for:	Utilized to meet USF contributions:
November 3, 2003	1Q: January – March 2004	1Q: January – March 2004
February 2, 2004	2Q: April – June 2004	2Q: April – June 2004
May 3, 2004	3Q: July – September 2004	3Q: July – September 2004
August 2, 2004	4Q: October – December 2004	4Q: October – December 2004

Telecommunications providers qualifying for the *de minimis* exemption from contribution requirements do not need to complete the Form 499-Q.¹² However, for providers required to contribute to the universal service support mechanisms, the Form 499-Q must be submitted by the due date for each quarter listed above.

FOURTH QUARTER 2003 PROJECTED COLLECTED REVENUE BASE TO BE USED FOR FOURTH QUARTER 2003 CONTRIBUTIONS

The total projected collected interstate and international end-user revenue base to be used in determining the contribution factor for the Universal Service Support Mechanisms for 4Q2003 is \$18,607.282 million. This amount was derived from approximately 5,008 FCC Forms 499-Q that were distributed to carriers in late June 2003. Interstate telecommunications service providers were required to complete this form reporting October - December 2003 projected collected revenue

¹⁰ 47 C.F.R. § 54.709(a).

¹¹ 47 C.F.R. § 54.709(a). USAC is required to file projected program demand data at least 60 days prior to the start of a quarter and total contribution base revenue data at least 30 days prior to the start of a quarter.

¹² See 47 C.F.R. § 54.708.

information, and return it by August 1, 2003. USAC has received complete revenue data from 2,456 (2,165 contributors, 291 *de minimis*) carriers.¹³

The funding base for 4Q2003 is developed from the projected collected revenues for 4Q2003 that were reported by carriers in August 2003. As of August 25, 2003, USAC has yet to receive information from 223 non-*de minimis* telecommunications service providers that had previously submitted information to USAC. For the FCC's review of the 4Q2003 funding base for the support mechanisms, USAC includes estimated revenues for non-filers based on prior submissions for those carriers that failed to submit a Form 499-Q.¹⁴

Appendix M05 provides a list of companies that have filed the August 1, 2003, Form 499Q data collection as of August 25, 2003. Appendix M06 provides a list of companies that have filed the April 1, 2003, Form 499A data collection as of August 28, 2003.

REVISED ADMINISTRATIVE EXPENSES

USAC is revising its administrative expenses for 4Q2003, which have increased due to an increase in the budgets for the High Cost and Low Support Mechanisms. Because the contract for the day-to-day program operations of the High Cost and Low Income mechanisms expires on December 31, 2003, USAC conducted a competitive procurement process to select a vendor to begin providing these services under a new contract beginning January 1, 2004. A Request for Proposals was released on January 24, 2003 and the High Cost and Low Income Committee narrowed the bidders to two firms with which it negotiated throughout the summer. On August 19, 2003, USAC's High Cost and Low Income Committee authorized USAC to enter into a contract for

¹³ The USAC Board of Directors adopted a late filing penalty, consistent with 47 C.F.R. § 54.713, at its October 1998 meeting and ratified at its October 26, 1999, meeting to be applicable to the FCC Form 499-Q and 499-A data collections. Companies not submitting their FCC Form 499-Q or 499-A by the due date are subject to a late filing penalty calculated at a rate of .005 percent applied to their total contribution base revenue with a minimum penalty of \$100 and a maximum penalty of \$5,000. This penalty was effective beginning with the March 1, 1999, FCC Form 457 data collection.

¹⁴ 47 C.F.R. § 54.709(d).

the Performance of Services Related to the High Cost and Low Income Universal Service Support Mechanisms with Telcordia Technologies, Inc. The contract with Telcordia will commence September 2, 2003 in order to complete the transition from the current vendor, the National Exchange Carrier Association, Inc., by January 1. Accordingly, at its August 19 meeting, the High Cost and Low Income Committee approved an increase of \$1.6 million (\$800,000 for High Cost and \$800,000 for Low Income) for 4Q2003 to pay for the costs of this transition during 4Q2003. Revised Appendix M01 details USAC's estimated administrative expenses budget for 4Q2003.

REVISED FUNDING REQUIREMENTS

REVISED HIGH COST SUPPORT MECHANISM

USAC is revising the funding requirements for the High Cost Support Mechanism to reflect the revised administrative expenses for 4Q2003 as discussed above. Revised Appendix M02 details High Cost Support Mechanism fund size projections for 4Q2003.

REVISED LOW INCOME SUPPORT MECHANISM

USAC is revising the funding requirements for the Low Income Support Mechanism to reflect the revised administrative expenses for 4Q2003 as discussed above. Revised Appendix M02 details Low Income Support Mechanism fund size projections for 4Q2003.

conclusion

On July 22, 2003, USAC's Board of Directors passed a resolution authorizing the 4Q2003 contribution base requirement described herein.

Respectfully submitted,

UNIVERSAL SERVICE
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